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DOMAN INDUSTRIES LIMITED

**ANNUAL
REPORT
1967**



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DIRECTORS
AND
OFFICERS

DOMAN INDUSTRIES LIMITED
(Incorporated under the Laws of British Columbia)

DIRECTORS

H. S. DOMAN, *President, Doman Industries, Duncan, B.C.*

DENNIS C. ROBERTS, *Chartered Accountant, Victoria, B.C.*

IAN C. DANVERS, *Director, Pemberton Securities, Vancouver, B.C.*

JOHN C. DAVIE, *Barrister & Solicitor, Williams & Davie, Duncan, B.C.*

G. S. DOMAN, *Executive, Doman Industries, Duncan, B.C.*

D. S. DOMAN, *Executive, Doman Industries, Victoria, B.C.*

GORDON B. ELWORTHY, *Vice-President, Island Tug & Barge, Victoria, B.C.*

OFFICERS

H. S. DOMAN, *President*

JOHN C. DAVIE, *Secretary*

REGISTRAR &
TRANSFER AGENT

ROYAL TRUST COMPANY, *Vancouver, B.C.*

BANKERS

THE ROYAL BANK OF CANADA

SOLICITORS

WILLIAMS & DAVIE, *Duncan, B.C.*

AUDITORS

THORNE, GUNN, HELLIWELL & CHRISTENSON, *Vancouver, B.C.*

PRESIDENT'S REPORT TO THE SHAREHOLDERS

It is with great pleasure that I again take the opportunity to address our shareholders. The Centennial Year in Canada marked our third year as a public company, and has been noteworthy in many respects.

The Year In Review

The year ending October 31, 1967, was one of consolidation for your Company with our main project, the new Sawmill at Ladysmith, B.C., being completed.

Sales for the year totalled \$8,362,126, an increase of 19.25% over the previous year, and setting an all time high for your Company. However, earnings of \$158,329, as compared with \$190,145 in the previous year were down from anticipated levels. Earnings were affected by increased interest and depreciation charges on new assets whose full earnings potential was not realized in the first year.

During 1967 we issued 40,000 Preferred Shares each carrying a share purchase warrant, to provide \$358,500 after costs, and we entered into long-term financing agreements with RoyNat Ltd. to provide \$1,000,000. These funds together with long term capital contributions from the minority shareholders of Ladysmith Forest Products Limited have enabled us to pay for the new Sawmill at Ladysmith, B.C. without reducing our working capital. With the receipt of the balance of these funds in the first quarter of the new year, our working capital is currently in excess of \$750,000.

Your Company has now achieved integration from the forest to the ultimate consumer.

The Outlook For Business

Your Directors believe that the profit squeeze being experienced by business, the tight money restrictions, and other major problems facing Canada today must be confronted, and certainly can be overcome. To this end we further believe that productivity is the key to overcoming these problems, and we are directing every effort to ensure maximum productivity within our organization.

The Coming Year

With a firm base to work from your Company looks with confidence to the coming year as one in which our integrated group can take full advantage of new opportunities for profitable business.

Building Supplies

We are presently operating three retail stores and two wholesale distribution yards. The Company is considering broader distribution in the Canadian market, a goal which is backed by the new production capacity of the Ladysmith Sawmill.

Lumber Exports

It has always been the belief of your Directors that we should be completely diversified and to this end we now have expanded from the domestic market to the foreign markets of Japan, South Africa, the United Kingdom and the U.S.A. In 1967 the Company sold approximately 10 million board feet of lumber in the world markets. In 1968 we will sell over 50 million board feet in these same world markets and we will further increase our domestic sales.

Transportation

Our transportation fleet continues to expand and to be one of the best maintained and equipped anywhere. In the coming year we will be expanding this part of the business into new areas and particularly into the U.S. Pacific Northwest. The driver safety program has been an outstanding success, and our employees are to be congratulated for their courtesy on the road and for an enviable safety record.

Sawmilling

The Ladysmith Sawmill has been completed and has shown itself to be an efficient new approach to lumber manufacturing. With the full co-operation and enthusiastic support of the Provincial Government we have proven that small logs which were previously left in the woods should be harvested in order to produce lumber and pulp chips. In January 1968, this Sawmill's production was doubled by the addition of a night shift operation. It is now planned to further increase the production by adding a third shift, which will make an around the clock continuous five day a week operation.

We plan to take maximum advantage of a good lumber market in which prices are rising and in which we can sell everything that we can produce. In February 1968, a planing mill was completed alongside the Ladysmith Sawmill, and we now have a fully integrated milling operation capable of competing effectively in both domestic and foreign markets.

Logging

In the coming year the Company will be harvesting a considerable volume of timber from its Vancouver Island claims and will receive further volumes in co-operation with other producers. Emphasis will be placed on a policy of close utilization of the forest. Smallwood production which results from this policy is now economically feasible because of the market created by our Ladysmith Sawmill.

Upon completion of Forestry and Feasibility Studies the Company plans to develop substantial timber concessions outside of the Province with a view to establishing a fully integrated logging and lumbering operation which will provide a base for expansion into Eastern Canada.

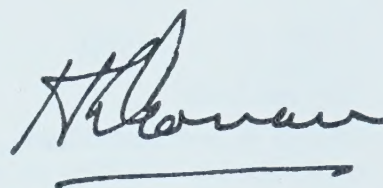
General

Many excellent opportunities continue to present themselves to the Company. With the continued co-operation and enthusiastic support of our employees we can expand with advantage into numerous areas which are complementary to our present operations.

A Special Note

This message would not be complete without expressing our sincere appreciation to Mr. John W. Chambers who recently retired from our Board of Directors after long service with the Company. Mr. Chambers was active throughout our difficult formation years, and his assistance and advice have been invaluable to us.

Respectfully submitted,



President.

Duncan, B.C.
February 12, 1968.

FINANCIAL HIGHLIGHTS

	1967	1966
Sales	\$8,362,126	\$7,011,818
Earnings Before Income Taxes.....	314,729	374,560
Less Income Taxes.....	156,400	184,415
Net Earnings.....	158,329	190,145
Less Preferred Dividends.....	56,550	37,050
Net Earnings Available for Common Shares.....	101,779	153,095
Earnings Per Common Share.....	.29	.43
	1967	1966
Current Assets.....	\$2,802,367	\$2,571,165
Current Liabilities.....	2,455,576	2,332,660
Working Capital.....	346,791	238,505
Fixed Assets — Net.....	2,728,026	1,986,637
Other Assets.....	464,303	264,322
Long-Term Indebtedness.....	1,123,212	544,446
Deferred Income Taxes.....	244,700	235,700
Preferred Shares.....	970,000	570,000
Common Shareholders' Equity.....	1,201,208	1,139,318
Book Value Per Common Share.....	3.36	3.19

DOMAN INDUSTRIES

(Incorporated under the Laws of the State of New York)

Consolidated Balance Sheet

(With Comparative Balance Sheet for 1965)

ASSETS		1967	1966 (Note 1)
<i>Current Assets</i>			
Cash on hand and in bank.....	\$	31,097	\$ 6,659
Marketable securities, at cost.....		29,985	20,000
Accounts Receivable.....		1,258,501	1,081,204
Inventories (Note 2).....		1,333,529	1,359,710
Prepaid Expenses.....		81,067	29,740
Advances to associated companies.....		39,615	58,852
Principal portion of mortgage receivable within one year.....		28,573	15,000
		<u>2,802,367</u>	<u>2,571,165</u>
<i>Investments and Receivables other than Current</i>			
6% mortgage receivable, less amount due within one year.....		—	15,000
Special refundable tax.....		12,796	8,195
Other.....		56,312	49,798
		<u>69,108</u>	<u>72,993</u>
<i>Fixed Assets, at cost</i>			
Buildings, machinery and equipment.....		3,153,741	2,166,685
Less accumulated depreciation.....		712,763	520,078
		<u>2,440,978</u>	<u>1,646,607</u>
Land		139,445	139,445
Timber holdings and logging roads, less amounts written off \$178,583 (1966 — \$109,072).....		147,603	200,585
		<u>2,728,026</u>	<u>1,986,637</u>
<i>Deferred Preproduction Expenses</i> (Note 3).....		<u>203,754</u>	<u>3,008</u>
<i>Other</i>			
Interest of minority shareholders in subsidiary company.....		3,095	(25)
Excess of cost over book values on acquisition of shares in subsidiaries....		188,346	188,346
		<u>191,441</u>	<u>188,321</u>
		<u>\$5,994,696</u>	<u>\$4,822,124</u>

RIES LIMITED

(Province of British Columbia)

October 31, 1967 (Note 1)

at October 31, 1966)

LIABILITIES		
	1967	1966 (Note 1)
<i>Current Liabilities</i>		
Bank advances, secured.....	\$ 979,657	\$ 922,852
Accounts payable and accrued liabilities.....	1,102,511	979,502
Income taxes payable.....	148,795	139,795
Due to directors, officers and shareholders.....	4,483	—
Principal instalments due within one year on long-term debt.....	220,130	290,511
	<u>2,455,576</u>	<u>2,332,660</u>
<i>Long-Term Debt</i> (Note 4).....	1,343,342	834,957
Less principal instalments included in current liabilities.....	220,130	290,511
	<u>1,123,212</u>	<u>544,446</u>
<i>Deferred Income Taxes</i> (Note 5).....	<u>244,700</u>	<u>235,700</u>
<i>Shareholders' Equity</i>		
<i>Capital Stock</i> (Note 6)		
Authorized		
117,000 6½% cumulative redeemable convertible		
preferred shares, par value \$10		
1,000,000 common shares without par value		
Issued		
97,000 (1966 — 57,000) preferred shares.....	970,000	570,000
357,000 common shares.....	286,250	286,250
	<u>1,256,250</u>	<u>856,250</u>
<i>Retained Earnings</i>	914,958	853,068
	<u>2,171,208</u>	<u>1,709,318</u>
Approved on behalf of the Board:		
H. S. DOMAN, Director		
J. C. DAVIE, Director		
	<u>\$5,994,696</u>	<u>\$4,822,124</u>

Consolidated Statement of Earnings and Retained Earnings

Year Ended October 31, 1967 (with comparative figures for 1966)

	1967	1966
<i>Sales</i> —products, merchandise and services.....	<u>\$8,362,126</u>	<u>\$7,011,818</u>
<i>Deduct</i>		
Production, selling and administration expense (1967—including Federal Sales Tax assessment \$12,093 re prior years).....	7,707,681	6,303,451
Depreciation.....	195,261	172,199
Depletion of timber and amortization of roads.....	69,511	115,453
Interest on long-term debt (1967—excluding \$26,020 charged to deferred preproduction expenses).....	78,351	52,321
	<u>8,050,804</u>	<u>6,643,424</u>
	311,332	368,394
<i>Add</i> —profit on sale of fixed assets.....	287	6,166
Earnings before income taxes and minority interest.....	<u>311,609</u>	<u>374,560</u>
<i>Deduct</i> —Provision for income taxes (Note 5)		
Currently payable	147,400	131,415
Deferred	9,000	53,000
	<u>156,400</u>	<u>184,415</u>
Earnings before minority interest.....	155,209	190,145
<i>Add</i> —interest of minority shareholders in loss of Ladysmith Forest Products Limited.....	3,120	—
Net earnings for year.....	158,329	190,145
<i>Add</i> —retained earnings at beginning of year.....	853,068	768,768
	<u>1,011,397</u>	<u>958,913</u>
<i>Deduct</i> —		
Financing costs written off.....	39,889	68,795
Dividends on preferred shares.....	56,550	37,050
	<u>96,439</u>	<u>105,845</u>
Retained earnings at end of year, carried to balance sheet.....	<u>\$ 914,958</u>	<u>\$ 853,068</u>

Consolidated Statement of Source and Application of Funds

Year Ended October 31, 1967 (with comparative figures for 1966)

<i>Source of Funds</i>	1967	1966 (Note 1)
Operations—Net earnings before minority interest.....	\$ 155,209	\$ 190,145
Charges against earnings not representing a current outlay of funds—Depreciation and depletion.....	264,772	287,652
Deferred income taxes.....	9,000	53,000
	<u>428,981</u>	<u>530,797</u>
Issue of securities—		
Preferred shares	400,000	—
First Mortgage Bonds (700,000 less amounts repaid and currently maturing).....	612,500	—
Debenture of Ladysmith Forest Products Limited (minority interest)..<	250,000	—
	<u>1,262,500</u>	<u>—</u>
Less—commissions and expenses.....	39,889	—
	<u>1,222,611</u>	<u>—</u>
Sale of fixed assets.....	9,618	44,123
Reduction (increase) in non-current investments and receivables.....	3,885	(30,369)
	<u>1,665,095</u>	<u>544,551</u>
<i>Application of Funds</i>		
Additions to fixed assets.....	1,015,779	735,294
Sawmill preproduction expenditures.....	200,746	3,008
Net reduction in long-term debt other than bonds and debentures.....	283,734	91,997
Dividends paid on preferred shares.....	56,550	37,050
	<u>1,556,809</u>	<u>867,349</u>
Increase (decrease) in working capital.....	108,286	(322,798)
Working capital at beginning of year.....	238,505	561,303
Working capital at end of year.....	<u>\$ 346,791</u>	<u>\$ 238,505</u>

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Doman Industries Limited and its subsidiary companies at October 31, 1967 and the consolidated statements of earnings and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies at October 31, 1967 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted principles applied on a basis consistent with that of the preceding year.

Vancouver, B.C.
January 17, 1968.

THORNE, GUNN, HELLIWELL & CHRISTENSON
Chartered Accountants.

Notes To Consolidated Financial Statements

1. BASIS OF CONSOLIDATION—The consolidated financial statements include the accounts of all subsidiary companies, including for the first time Ladysmith Forest Products Limited, a 70% owned subsidiary, the operations of which commenced during the year. (See also Note 3.)

To give more meaning to comparison of the 1967 financial information with that for 1966, the comparative figures shown for 1966 in these financial statements have been adjusted where necessary to consolidate the figures for Ladysmith Forest Products Limited.

2. INVENTORIES

	1967	1966
Logs	\$ 330,511	\$ 258,808
Lumber	641,647	564,504
Merchandise	296,505	322,537
Supplies	64,866	30,714
	<u>\$ 1,333,529</u>	<u>\$ 1,176,563</u>

Logs and supplies are valued at the lower of cost and replacement cost; lumber and merchandise are valued at the lower of cost and net realizable value.

3. DEFERRED PREPRODUCTION EXPENSES—The sawmill of Ladysmith Forest Products Limited was completed during the year at a total cost of \$1,250,000. The cost of operation to August 31, 1967 (regarded as the end of the period of completing construction and running in the mill) less revenues from lumber and chips produced to that date comprise the balance sheet item "Deferred Preproduction Expenses". It is intended to amortize this amount by regular charges to income over five years starting January, 1968, when the mill commenced the double shift basis of operation for which it was designed.

4. LONG TERM DEBT

	Amount October 31, 1967	Principal instalments due within one year
9¼% First Mortgage Bonds, Series "A", payable in 40 quarterly instalments commencing October 15, 1967.....	\$ 682,500	\$ 70,000
7% Debentures of Ladysmith Forest Products Limited (held by its shareholders) payable from 1970 to 1974 (\$950,000 less \$700,000 held by Doman Industries Limited, eliminated in consolidation).....	250,000	—
Equipment contracts at various rates of interest, payable monthly.....	257,769	103,173
6% loans from shareholders	72,126	—
Other agreements payable	80,947	46,957
	<u>\$1,343,342</u>	<u>\$ 220,130</u>

The Trust Deed securing the issue of the company's First Mortgage Bonds contains normal provisions restricting the redemption of share capital, limiting amounts of fixed asset and long-term lease expenditures, and requiring the maintenance of specified levels of working capital. The Company has the right to call the Bonds for redemption in whole or in part after March 1, 1970.

5. INCOME TAXES—The companies have followed the practice of charging earnings with both the income taxes currently payable and the amounts deferred through claiming capital cost allowances in excess of the depreciation recorded at appropriate straight-line rates in the accounts. The accumulated amount of these deferments is recorded in the balance sheet as "Deferred Income Taxes".

Substantial deductions, in the form of preproduction expenses and capital cost allowances, are available in Ladysmith Forest Products Limited to be carried forward to reduce future income otherwise taxable in that company.

6. SHARE CAPITAL—During the year the company issued for cash an additional 40,000 Series "A" 6½% cumulative redeemable convertible preferred shares, each of which carries a warrant, exercisable until December 31, 1976, entitling the bearer to purchase one common share at \$7.00. Holders of the Series "A" preferred shares have the right, exercisable at any time, to convert any or all such shares into fully paid common shares on the basis of one and one-third common shares for each Series "A" preferred share.

At October 31, 1967, 181,333 unissued common shares were reserved as follows:

- (a) 76,000 for conversion of the 57,000 Series "A" preferred shares issued in 1965
- (b) 53,333 for conversion of the 40,000 Series "A" preferred shares referred to above
- (c) 40,000 against exercise of the common share purchase warrants referred to above
- (d) 12,000 against exercise of stock options held for directors (7,000) and key employees (5,000) at a price of \$5.00 and subject to such other terms of issue as the directors may see fit.

7. DIRECTORS' REMUNERATION—Fees to directors and full remuneration of officers and employees who are also directors totalled \$72,955 for the year. (1966—\$74,615).
8. SUBSEQUENT EVENTS—Subsequent to October 31, 1967 the companies received \$300,000 from issue of further First Mortgage Bonds (at 9½%) to be repayable over ten years. They also received \$111,100 from issue to minority interests of further 7% debentures of Ladysmith Forest Products Limited. In 1968 it is intended to purchase for the operation at Ladysmith a planing mill at a cost of approximately \$115,000.

